

Commitment 8: Rebuilding City Infrastructure

After years of neglecting maintenance of our streets, sidewalks and public facilities, city government must commit dedicated financing for and improved management of city infrastructure.

Over the years as the City of San Diego's financial problems have worsened, the city has neglected to properly maintain its assets and neighborhood infrastructure, resulting in a deferred maintenance backlog.

The impact to our quality of life has been significant. In a 2007 survey, only 38% of the City of San Diego roads were found to be in an "acceptable" condition.

Underfunding maintenance today only shifts (and increases) costs to taxpayers in the future. Deferring maintenance on neighborhood infrastructure creates future liabilities and costs when the backlog is finally confronted from a budgetary standpoint. The growth in cost occurs because of accelerated asset deterioration resulting from a lack of maintenance. In turn, this can cause shorter asset lifecycles and the need for total replacement or capital repair.

The city's infrastructure liability should be treated as seriously as our pension liability – with a rigorous financial assessment and monitoring. More importantly, the City must begin to shift its budget resources from labor costs back to infrastructure investments.

FY 2012 Changes

Reform 8.1 Begin Proper Accounting of and Budgeting for Infrastructure Deficit

The city's backlog of infrastructure needs has been estimated at over \$1 billion, but this calculation is misleading as it excludes assets such as sidewalks. (The city excludes items such as sidewalks in order to avoid the legal responsibility of addressing the problems immediately.¹)

Furthermore, the city has yet to address deferred maintenance from a comprehensive financial liability perspective. Assuming that asset deterioration impacts maintenance cost, foregoing maintenance (much like underfunding payments to pension systems) causes an increase in costs or the need to replace assets earlier than the end of expected lifespan (borrowing money to do so). The end result is an overall more expensive strategy for taxpayers.^{2, 3}

Perhaps more importantly, the city has yet to identify the quantitative year-over-year trend of this liability. Given that asset deterioration (and the associated cost) functions much like interest from a budgetary perspective, the growth rate of this liability must be identified in order to ensure a sufficient budgetary allocation to at least keep the liability from growing year over year.⁴

It is important to note that the City Council has already expressed its desire to approach the deferred maintenance backlog from this perspective. On February 22, 2010, the City Council adopted eleven guiding principles to "guide the development of a comprehensive plan over the next several months to eliminate the City's structural budget deficit."⁵



¹ See June 29, 2009 Report from Public Works Department, pg 2
² Blue Ribbon Committee on Finances, February 2002, pp. 24-27.
³ San Diego City Auditor Performance Audit of the City's Street Maintenance Functions, October 26, 2009.
⁴ See Audit Committee Actions, November 9, 2009, Item 1.
⁵ See IBA Report 10-18 and Resolution R-305615

Principle #11 states that the City should:

"Develop a plan to fund deferred capital infrastructure and maintenance needs to reduce the current backlog, identify the level of funding necessary to prevent the problem from growing larger, and reduce the potential of increasing costs..."

We believe that when the City applies a strategic and data-driven approach toward the level of funding allocated for regular and deferred maintenance, long-term maintenance costs will be minimized due to the maximization of asset lifecycles through proper upkeep, providing taxpayers with the best possible value. In order to accomplish this goal, however, the required level of funding and the impact of inadequately funding ongoing and "catch-up" costs must first be understood.

Reform 8.2 Create a Single "Streets Department" for Improved Infrastructure Management

The Roadmap to Reform endorses the idea to consolidate all functions relating to the maintenance of city streets into one single department. Currently the functions with responsibilities for city streets are scattered across several offices. This challenge has been identified in a City Auditor report – and a consolidation is now underway.⁶

Furthermore, the City Auditor has released a report on one of the three main components of the city's acknowledged deferred maintenance backlog: streets⁷. The Auditor's report highlights many aspects of the city's street maintenance and repair operations requiring improvement, concluding that the strategy employed by the city could cause the "costs of maintaining streets [to] greatly increase over the long term should deferred maintenance needs not be strongly addressed." The audit also documents that opportunities for improvement exist within the streets division that would allow for the most efficient use of budgeted funds for the maintenance and deferred maintenance related to streets.

By the end of FY 12, the Mayor and City Council should insist upon full implementation of the recommendations identified by the City Auditor to improve management of city street repairs and maintenance.

Long-Term Changes

Reform 8.3 Adopt a Five Year Spending Cap With An Infrastructure Financing Reserve

The Roadmap to Recovery provides a five-year fiscal forecast projecting revenues and expenditures in the City's General Fund. If the economy recovers, any increased revenues received above the forecast contained in the current budget package should be set aside into the reserve account to be spent exclusively on repairing San Diego's infrastructure.

To instill spending discipline, and to lockbox funds for repairing neighborhood infrastructure in this manner, the following ballot measure should be placed before the voters at the next election:

Section XXX: Infrastructure Financing Lock Box

There is hereby created an Infrastructure Financing "Lock Box" Fund in the General Fund for the purpose of reducing the deferred maintenance liability in city infrastructure.

Beginning with FY 2012 and continuing through FY 2016, any increase in General Fund revenues above 2% per annum shall be deposited in the Infrastructure Financing "Lock Box" Fund for the purpose of rebuilding core city infrastructure.

In expending funds from this Infrastructure Financing "Lock Box" Fund, the Mayor and City Council shall make every effort to leverage funds to facilitate the maximum level of investment in infrastructure. In selecting projects to be funded from the "Lock Box" Fund, the Mayor and Council shall give priority to repair of streets, sidewalks, and public facilities.

The City Auditor shall verify that the appropriate amount of funds are deposited annually into this reserve account and shall audit the use of the funds to ensure funds are used solely for infrastructure repair and improvement.

⁶ See September 7, 2010 memo from Public Works Department.

⁷ "Performance Audit of the City's Street Maintenance Functions," San Diego City Auditor, October 26, 2009.